

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
FRANKTON-LAPEL COMMUNITY SCHOOLS
MADISON COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
03/09/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Lynn Hall	07-01-04 to 06-30-07
Superintendent of Schools	Ned L. Speicher	07-01-04 to 06-30-07
President of the School Board	Nancy Likens	07-01-04 to 06-30-07



STATE OF INDIANA
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**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

TO: THE OFFICIALS OF THE FRANKTON-LAPEL COMMUNITY SCHOOLS, MADISON COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Frankton-Lapel Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated February 19, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Schedule of Funding Progress as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Long-Term Debt is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

February 19, 2007



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE FRANKTON-LAPEL COMMUNITY SCHOOLS, MADISON COUNTY, INDIANA

We have audited the financial statements of the Frankton-Lapel Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated February 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the School Corporation on February 19, 2007. These immaterial instances of non-compliance were subsequently communicated to management in a separate letter.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 19, 2007

FRANKTON-LAPEL COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,903,240
Restricted assets:	
Cash and investments	<u>1,304,688</u>
Total assets	<u>\$ 6,207,928</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,304,688
Unrestricted	<u>4,903,240</u>
Total net assets	<u>\$ 6,207,928</u>

The accompanying notes are an integral part of the financial statements.

FRANKTON-LAPEL COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 6,258,057
Restricted assets:	
Cash and investments	<u>700,807</u>
Total assets	<u>\$ 6,958,864</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 700,807
Unrestricted	<u>6,258,057</u>
Total net assets	<u>\$ 6,958,864</u>

The accompanying notes are an integral part of the financial statements.

FRANKTON-LAPEL COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 6,421,311	\$ -	\$ 94,940	\$ (6,326,371)
Support services	9,105,460	671,765	208,142	(8,225,553)
Community services	435,949	-	-	(435,949)
Nonprogrammed charges	8,998,619	-	-	(8,998,619)
Debt service	<u>5,856,028</u>	<u>-</u>	<u>-</u>	<u>(5,856,028)</u>
Total governmental activities	<u>\$ 30,817,367</u>	<u>\$ 671,765</u>	<u>\$ 303,082</u>	<u>(29,842,520)</u>
General receipts:				
Property taxes				10,844,731
Other local sources				2,431,627
State aid				8,815,081
Grants and contributions not restricted				376,589
Bonds and loans				1,750,004
Sale of property, adjustments, and refunds				2,308,595
Investment earnings				80,510
Intergovernmental transfers				<u>6,088,276</u>
				Total general receipts and intergovernmental transfers
				<u>32,695,413</u>
				Change in cash and investments
				2,852,893
				Net assets - beginning
				<u>3,355,035</u>
				Net assets - ending
				<u>\$ 6,207,928</u>

The accompanying notes are an integral part of the financial statements.

FRANKTON-LAPEL COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 6,699,295	\$ -	\$ 73,953	\$ (6,625,342)
Support services	9,189,355	706,888	267,723	(8,214,744)
Community services	459,795	-	-	(459,795)
Nonprogrammed charges	9,533,730	-	-	(9,533,730)
Debt service	4,703,310	-	-	(4,703,310)
Total governmental activities	\$ 30,585,485	\$ 706,888	\$ 341,676	(29,536,921)
General receipts:				
Property taxes				7,698,681
Other local sources				1,805,379
State aid				9,098,364
Grants and contributions not restricted				338,348
Bonds and loans				1,052,377
Sale of property, adjustments, and refunds				5,541,969
Investment earnings				189,455
Intergovernmental transfers				4,563,284
				<u>30,287,857</u>
				750,936
				<u>6,207,928</u>
				<u>\$ 6,958,864</u>

The accompanying notes are an integral part of the financial statements.

FRANKTON-LAPEL COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Rainy Day	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 5,140,324	\$ 1,622,459	\$ -	\$ 4,112,516	\$ 1,718,922	\$ 201,005	\$ 1,221,498	\$ 14,016,724
Intermediate sources	98	-	-	-	-	-	-	98
State sources	8,884,074	-	-	-	-	-	146,561	9,030,635
Federal sources	-	-	-	-	-	-	464,118	464,118
Bonds and loans	1,750,004	-	-	-	-	-	-	1,750,004
Sale of property, adjustments and refunds	71,700	17,203	-	-	1,079	-	23,086	113,068
Intergovernmental transfers	<u>1,455,222</u>	<u>742,000</u>	<u>804,000</u>	<u>321,000</u>	<u>1,140,000</u>	<u>-</u>	<u>144,292</u>	<u>4,606,514</u>
 Total receipts	 <u>17,301,422</u>	 <u>2,381,662</u>	 <u>804,000</u>	 <u>4,433,516</u>	 <u>2,860,001</u>	 <u>201,005</u>	 <u>1,999,555</u>	 <u>29,981,161</u>
Disbursements:								
Current:								
Instruction	5,957,725	-	-	-	-	-	463,586	6,421,311
Support services	3,774,891	1,052,037	-	-	1,789,920	171,886	1,010,011	7,798,745
Community services	267,259	-	-	-	-	-	168,690	435,949
Nonprogrammed charges	3,644,410	201,500	2,794,224	-	158,343	-	140	6,798,617
Debt services	<u>1,962,005</u>	<u>-</u>	<u>-</u>	<u>3,660,265</u>	<u>-</u>	<u>-</u>	<u>233,758</u>	<u>5,856,028</u>
 Total disbursements	 <u>15,606,290</u>	 <u>1,253,537</u>	 <u>2,794,224</u>	 <u>3,660,265</u>	 <u>1,948,263</u>	 <u>171,886</u>	 <u>1,876,185</u>	 <u>27,310,650</u>
Excess (deficiency) of total receipts over (under) total disbursements	1,695,132	1,128,125	(1,990,224)	773,251	911,738	29,119	123,370	2,670,511
Cash and investments - beginning	<u>43,719</u>	<u>(522,572)</u>	<u>2,395,907</u>	<u>415,413</u>	<u>(338,833)</u>	<u>110,685</u>	<u>592,549</u>	<u>2,696,868</u>
Cash and investments - ending	<u>\$ 1,738,851</u>	<u>\$ 605,553</u>	<u>\$ 405,683</u>	<u>\$ 1,188,664</u>	<u>\$ 572,905</u>	<u>\$ 139,804</u>	<u>\$ 715,919</u>	<u>\$ 5,367,379</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 2,670,511
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>182,382</u>
Change in cash and investments of governmental activities	<u>\$ 2,852,893</u>

FRANKTON-LAPEL COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Rainy Day	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 3,910,872	\$ 1,279,125	\$ -	\$ 2,519,227	\$ 1,266,622	\$ 192,061	\$ 1,157,052	\$ 10,324,959
Intermediate sources	195	-	-	-	-	-	51,513	51,708
State sources	9,137,271	-	-	-	-	-	140,838	9,278,109
Federal sources	-	-	-	-	-	-	500,278	500,278
Bonds and loans	1,052,377	-	-	-	-	-	-	1,052,377
Sale of property, adjustments and refunds	19,119	12,667	-	-	901,547	-	13,012	946,345
Intergovernmental transfers	-	-	2,629,344	116,265	-	-	274,088	3,019,697
Total receipts	14,119,834	1,291,792	2,629,344	2,635,492	2,168,169	192,061	2,136,781	25,173,473
Disbursements:								
Current:								
Instruction	6,398,676	-	-	-	-	-	300,619	6,699,295
Support services	4,002,631	1,153,982	-	12,004	1,262,386	228,316	1,018,138	7,677,457
Community services	269,060	-	-	-	-	-	190,735	459,795
Nonprogrammed charges	2,382,409	606,904	65,653	396,386	1,326,337	3,762	152,280	4,933,731
Debt services	1,750,004	-	-	2,715,848	-	-	237,458	4,703,310
Total disbursements	14,802,780	1,760,886	65,653	3,124,238	2,588,723	232,078	1,899,230	24,473,588
Excess (deficiency) of total receipts over (under) total disbursements	(682,946)	(469,094)	2,563,691	(488,746)	(420,554)	(40,017)	237,551	699,885
Cash and investments - beginning	1,738,851	605,553	405,683	1,188,664	572,905	139,804	715,919	5,367,379
Cash and investments - ending	<u>\$ 1,055,905</u>	<u>\$ 136,459</u>	<u>\$ 2,969,374</u>	<u>\$ 699,918</u>	<u>\$ 152,351</u>	<u>\$ 99,787</u>	<u>\$ 953,470</u>	<u>\$ 6,067,264</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 699,885
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>51,051</u>
Change in cash and investments of governmental activities	<u>\$ 750,936</u>

FRANKTON-LAPEL COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2005

	Internal Service Fund
Receipts:	
Local sources	\$ 11,807
Transfers	<u>1,477,290</u>
Total receipts	<u>1,489,097</u>
Disbursements:	
Support services	<u>1,306,715</u>
Changes in cash and investments	182,382
Cash and investments - beginning	<u>658,167</u>
Cash and investments - ending	<u><u>\$ 840,549</u></u>

The accompanying notes are an integral part of the financial statements.

FRANKTON-LAPEL COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2006

	Internal Service Fund
Receipts:	
Local sources	\$ 23,738
Transfers	<u>1,539,211</u>
Total receipts	<u>1,562,949</u>
Disbursements:	
Support services	<u>1,511,898</u>
Changes in cash and investments	51,051
Cash and investments - beginning	<u>840,549</u>
Cash and investments - ending	<u><u>\$ 891,600</u></u>

The accompanying notes are an integral part of the financial statements.

FRANKTON-LAPEL COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 17,567	\$ 1,844
Intermediate sources	-	33,210
Transfers	1,000,000	-
Total additions	1,017,567	35,054
Deductions:		
Instruction	-	-
Support services	29,637	19,575
Nonprogrammed charges	1,000,000	-
Total deductions	1,029,637	19,575
Excess (deficiency) of total additions over (under) total deductions	(12,070)	15,479
Cash and investments - beginning	1,173,419	(5,604)
Cash and investments - ending	\$ 1,161,349	\$ 9,875

The accompanying notes are an integral part of the financial statements.

FRANKTON-LAPEL COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 32,328	\$ 4,410
Intermediate sources	-	45,607
State sources	-	19,079
Total additions	32,328	69,096
Deductions:		
Instruction	-	13,433
Support services	132,480	35,105
Nonprogrammed charges	30,000	-
Total deductions	162,480	48,538
Excess (deficiency) of total additions over (under) total deductions	(130,152)	20,558
Cash and investments - beginning	1,161,349	9,875
Cash and investments - ending	\$ 1,031,197	\$ 30,433

The accompanying notes are an integral part of the financial statements.

FRANKTON-LAPEL COMMUNITY SCHOOLS
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,161,349	\$ 9,875	\$ 1,006
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 1,161,349	\$ 9,875	

The accompanying notes are an integral part of the financial statements.

FRANKTON-LAPEL COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,031,197	\$ 30,433	\$ 7,443
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 1,031,197	\$ 30,433	

The accompanying notes are an integral part of the financial statements.

FRANKTON-LAPEL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the Primary Government (Frankton-Lapel Community Schools). In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The School Corporation is a participant with Carmel-Clay Schools, Noblesville Schools, Hamilton Heights School Corporation, Hamilton Southeastern Schools, Westfield Washington Schools, Marion-Adams Schools in a joint venture to operate the Hamilton-Boone-Madison Special Services Cooperative which was created to provide for the special education needs of member schools. The school corporation is obligated by contract to remit their students' proportional share of cost annually to supplement the joint venture to Carmel-Clay Schools, as administrators. The joint venture's continued existence depends on continued funding by the member school corporations. Complete financial statements for the joint venture can be obtained from Carmel-Clay Schools, 5201 East 131st Street, Carmel, IN 46033.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, there are no business-type activities to report at this time.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

FRANKTON-LAPEL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The rainy day fund is to account for transfers of unused and unencumbered funds in accordance with Indiana Code 36-1-8-5 and a locally adopted resolution. The fund is subject to the same appropriation process as funds that receive tax money.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for risk financing for risks associated with medical benefits to employees, retirees and dependents (excluding postemployment benefits), all lines aggregate liability insurance, and is provided to other departments based upon a premium charged.

Pension trust funds account for receipts and disbursements concerning retirement/severance benefits as authorized by statute.

Private-purpose trust funds report a trust arrangement under which principal and income benefit the School Corporation or students who attend the School Corporation.

Agency funds account for assets held by the School Corporation as an agent for payroll related withholdings and serve as control accounts for certain cash transactions during the time they are a liability to the School Corporation; that is, from the time they are expensed to the government or withheld from the employee's wages until they are transmitted to the proper payee for the purpose withheld.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

FRANKTON-LAPEL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to other departments or agencies primarily within the government (internal service fund). The School Corporation does not have any enterprise funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Teachers under contract earn sick leave at the rate of 10 days during the first school year and 7 days thereafter. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is paid to teachers through cash payments upon retirement at various rates depending on length of service.

Full-time noncertified School Corporation employees earn sick leave at the rate of 3 days during the first, 5 days during the second school year and 7 days each school year thereafter. Unused sick leave may be accumulated to a maximum of 75 days. Accumulated sick leave is paid to employees through cash payments upon retirement at a rate of \$20 per day.

FRANKTON-LAPEL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 3 days per school year. Unused personal leave may be accumulated as additional sick time.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

FRANKTON-LAPEL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investments and the Statement of Cash Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash and Investments and the Statement of Cash Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash and Investments and the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

FRANKTON-LAPEL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Disbursements in Excess of Appropriations

For the calendar year ended December 31, 2005, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2005
Debt Service	\$ 29,786
Capital Projects	486,855
Total	\$ 516,641

III. Detailed Notes on All Funds

A. Deposits

Deposits, made in accordance with Indiana Code 5-13, with financial institution in the State of Indiana at year end, were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

Transfer From	Transfer To	2005	2006
General Fund	Rainy Day Fund	\$ -	\$ 307,000
General Fund	Debt Service Fund	-	53,612
General Fund	Other governmental	-	109,265
General Fund	Internal Service	1,477,290	1,539,211
General Fund	All others	1,000,000	-
Transportation Operating Fund	Rainy Day Fund	-	567,000
Transportation Operating Fund	Other governmental	-	38,404
Rainy Day Fund	General Fund	446,880	-
Rainy Day Fund	Transportation Operating Fund	742,000	-
Rainy Day Fund	Debt Service Fund	321,000	62,653
Rainy Day Fund	Capital Projects Fund	1,140,000	-
Rainy Day Fund	Other governmental	24,431	-
Rainy Day Fund	Other governmental	119,861	3,000
Debt Service Fund	Rainy Day Fund	-	321,000
Debt Service Fund	Other governmental	-	75,386

FRANKTON-LAPEL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Transfer From	Transfer To	2005	2006
Capital Projects Fund	General Fund	8,342	-
Capital Projects Fund	Rainy Day Fund	-	1,290,000
Capital Projects Fund	Other governmental	-	36,336
School Bus Replacement Fund	Other governmental	-	3,762
Other governmental	Rainy Day Fund	804,000	24,483
Other governmental	Other governmental	-	597
All others	General Fund	1,000,000	-
All others	Rainy Day Fund	-	119,861
All others	Other governmental	-	7,338
		<u>\$ 7,083,804</u>	<u>\$ 4,558,908</u>
Totals		<u>\$ 7,083,804</u>	<u>\$ 4,558,908</u>

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon a fund's overall premium percentage which is applied to each affected fund based upon the number of employees participating in the plan who are paid from the fund.

B. Holding Corporations

The School Corporation has entered into capital leases with Frankton-Lapel North Elementary School Building Corporation (lessor) and Frankton-Lapel South High School Building Corporation (lessor). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of

FRANKTON-LAPEL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

financing and constructing or reconstructing facilities for lease to the School Corporation. The lessors have been determined to be related parties of the School Corporation. Lease payments during the year totaled \$2,545,000.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment medical benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 10 years of service. Currently, 19 retirees meet these eligibility requirements. The School Corporation (and retirees) provide various amounts toward these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$40,542 were recognized for postemployment benefits.

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

FRANKTON-LAPEL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 55,978
Interest on net pension obligation	(8,406)
Adjustment to annual required contribution	9,579
Annual pension cost	57,151
Contributions made	72,173
Decrease in net pension obligation	(15,022)
Net pension obligation, beginning of year	(115,943)
Net pension obligation, end of year	\$ (130,965)
Contribution rates:	
School Corporation	5%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 85,509	95%	\$ (104,084)
	06-30-04	60,348	120%	(115,943)
	06-30-05	57,151	120%	(130,965)

FRANKTON-LAPEL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$210,754, \$176,033, and \$146,023, respectively. The School Corporation contributed 100% of the required contribution for each of the fiscal years, respectively.

FRANKTON-LAPEL COMMUNITY SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,343,656	\$ 1,293,760	\$ 49,896	104%	\$ 1,261,560	4%
07-01-04	1,366,219	1,285,596	80,623	106%	1,222,366	7%
07-01-05	1,423,646	1,476,678	(53,032)	96%	1,372,064	(4%)

FRANKTON-LAPEL COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
North elementary school #1	\$ 3,450,023	\$ 933,601
North elementary school #2	17,978,363	488,905
South high school	33,910,000	-
Loans payable	1,557,429	266,112
Bonds payable:		
General obligation bonds:		
2002 issue	1,360,000	85,000
Total governmental activities long-term debt	<u>\$ 58,255,815</u>	<u>\$ 1,773,618</u>

FRANKTON-LAPEL COMMUNITY SCHOOLS
OTHER REPORT

The audit report presented herein was prepared in addition to another official report prepared on the Lapel Elementary School Extra-Curricular Account.

FRANKTON-LAPEL COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

Records presented for audit indicated the following expenditures in excess of budgeted appropriations for 2005:

<u>Fund</u>	<u>Excess Amount Expended</u>
Debt Service	\$ 29,786
Capital Projects	486,855

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

AUTOMOBILE MILEAGE ALLOWANCES

An Addendum to the Superintendent's contract states that "the Board shall pay the Superintendent five hundred dollars (\$500) per month as compensation for his business use of an automobile." The payments, which commenced in February 2005, were not included in the payroll system and were therefore not subject to tax withholding and reporting. Prescribed Mileage Claim General Form 101 was not used to substantiate these payments as reimbursements for miles actually driven.

Additionally, a number of other administrators and certain other School Corporation employees have mileage allowances ranging from \$300 to \$1,000 included in their contracts. These amounts are included in each employee's salary and are thus included for tax withholding and reporting purposes. Mileage documentation to substantiate the payment of these allowances was not presented for audit.

Official Opinion 74 of the Indiana Attorney General, issued in 1953, concluded there is no statutory authority for payment of a fixed amount of travel allowance to public employees and that a public employer may not reimburse an employee for travel expense which is, in fact, not incurred by the employee. Also, there is no authority for a travel allowance to be paid without regard to the number of miles, if any, actually traveled.

Therefore, the State Board of Accounts is of the audit position that a fixed amount for travel allowance should not be paid. The prescribed method is to reimburse the employee for travel on the basis of a claim filed on Mileage Claim, Form No. 101 for reimbursement at the rate per mile as established by the local board of school trustees for all employees of the corporation. (The School Administrator and Uniform Compliance Guidelines, Volume 149, page 2)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CAPITAL ASSET RECORDS

Information presented for audit did not indicate an inventory or record of capital assets using the prescribed form. The School Corporation contracts with an outside firm to periodically perform an inventory of capital assets and document this inventory on a report titled Asset Management Appraisal. The Asset

FRANKTON-LAPEL COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Management Appraisal is a periodic snapshot of capital assets owned by the School Corporation. The most recent appraisal is dated January 30, 2006. The School Corporation does not maintain the prescribed capital asset records denoting acquisitions, disposals and beginning and ending balances.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

COMPENSATION AND BENEFITS

The Superintendent, in addition to a Regular Teacher's Contract, receives certain other compensation as outlined in an attached Addendum. The Addendum contained some provisions that were not included in the School Corporation's salary ordinance or resolution. The Addendum was not signed by the School Board nor specifically approved in the official minutes of School Board. As a result, we were unable to verify the validity of certain items contained in the Addendum.

The Assistant Superintendent was paid for five days of work on July 6, 2006, in addition to his contractual amount for the 2005-2006 school year. Supporting documentation indicated the payments were for additional responsibilities relating to the construction of a new school facility. The total amount paid was \$1,846.35. This amount was approved for payment by the School Board but was not included in a contract, salary ordinance, resolution, or an approved addendum to his contract.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

CONDITION OF RECORDS

Ending cash balances of a number of funds on Fund Fiscal Reports presented for audit did not agree with the beginning balances on subsequent reports, due to adjusting entries made to fund transactions subsequent to the reports being generated. Amounts reported on the Form 9, used in the preparation of financial statements, were reflective of the financial activity based on testing performed.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FRANKTON-LAPEL COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

CREDIT CARD POLICY

The School Board has adopted administrative guidelines for a policy concerning the use of School Corporation credit cards. The administrative guidelines require that a log be kept which includes the names of the individuals using the cards, their position, estimated amounts to be charged, and the date the card is issued and returned. A review of the log indicated that School Corporation credit cards used by the Superintendent and Assistant Superintendent were not accounted for in the log maintained for the audit period.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

DISBURSEMENT DOCUMENTATION

Several payments were observed which did not contain adequate supporting documentation such as receipts, and invoices. Items charged to a School Corporation credit card to Embassy Suites and Enterprise Rent A Car in Denver, Colorado were not substantiated with original supporting documentation. We noted where some purchases made online were not supported by documentation. The business nature of these and other purchases by credit card was not noted on the claim or other supporting documentation.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

GUARANTEED ENERGY SAVINGS CONTRACTS

Evidence was not presented for audit indicating the School Corporation had timely filed savings summary reports relative to guaranteed energy savings contracts that are required to be filed with the Indiana Department of Commerce, Energy Policy Division, for the years of February 2004 through January 2005 and February 2005 through January 2006.

Effective March 21, 2002, Indiana Code 36-1-12.5-10 states:

"The governing body shall:

- (1) provide to the department of commerce not more than sixty (60) days after the date of execution of the guaranteed energy savings contract:
 - (A) a copy of the executed guaranteed energy savings contract;
 - (B) the energy consumption costs before the date of execution of the guaranteed energy savings contract; and
 - (C) the documentation using industry engineering standards for:
 - (i) stipulated savings; and
 - (ii) related capital expenditures; and

FRANKTON-LAPEL COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) annually report to the department of commerce, in accordance with procedures established by the department of commerce, the savings resulting in the previous year from the guaranteed energy savings contract or utility energy efficiency program."

MEAL PURCHASES

Disbursements for meals purchased with School Corporation credit cards were paid from the executive administrative services travel line item which did not appear to be for travel related expenditures. Meals were purchased on three occasions, at Pizza King in Lapel which is inside the School Corporation boundaries. One charge was at Ryan's in Anderson for the "yearly maintenance dinner". We also noted where meals were charged to restaurants in Anderson and Noblesville for numerous school administrators and other personnel. We made the following observations:

1. Officials did not appear to be in travel status when the charges were made;
2. The charges were for meals for a number of people and were not individual claims for each person's travel related expenses;
3. The charges examined did not state the business nature of the events surrounding the purchases; and
4. A detailed listing of items purchased was not submitted as documentation. Original charge slips were observed in some instances.

Disbursements should be paid from properly authorized line items. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

All claims, invoices, receipts and accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for whom amounts are claimed, including the nature, name and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim, may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

RAINY DAY FUND APPROPRIATIONS

School Corporation officials transferred a total of \$364,880 from the Rainy Day Fund on September 17, 2004. \$139,880 was allocated to the General Fund and \$225,000 to the Transportation Operating Fund. The transferred funds were used to pay accounts payable of the General and Transportation Operating Funds. The transfers were made without proper appropriation being obtained for the Rainy Day Fund.

Indiana Code 36-1-8-5.1 (c) states: "The rainy day fund is subject to the same appropriation process as other funds that receive tax money."

FRANKTON-LAPEL COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

TRAVEL POLICY

The travel policy presented for audit does not define the School Corporation's boundaries for purposes of determining when an employee is considered to be in travel status for purposes of reimbursing travel. The policy does not address a proportionate reduction in meal reimbursements when meals are provided by an outside party. A similar comment appeared in the prior Report B25027.

A local unit may reimburse such persons for actual miles traveled in their own motor vehicles on the official business of the local unit at a reasonable rate per mile as fixed by an ordinance or resolution of the unit's legislative body. The mileage rate should be fixed by the board or commission having authority to approve claims for travel expenses. No particular mileage rate has been set by the State of Indiana for all local units of government and, consequently, the mileage rate lies within the discretion of the legislative body, board or commission, unless otherwise provided by statute. The body setting the mileage rate should also determine whether parking fees and toll charges are included in the rate or, on the other hand, whether such expenses are to be reimbursed separately based on the submission of receipts.

Reimbursed mileage should not include travel to and from the officer's or employee's home and regular place of employment. If more than one person rides in the same vehicle, only one mileage reimbursement is allowable. General Form 101 (or an approved substitute) should be used for claiming mileage. The odometer reading columns on this form are to be used only when the distance between points cannot be determined by fixed mileage or official highway maps.

When traveling outside the local unit's boundaries on official business, officers and employees may also be reimbursed for meals, lodging, and incidental expenses as defined in the travel policy. The claim for reimbursement should be supported by itemized receipts from hotels, restaurants, and taxi cabs used by the officer or employee while traveling on official business.

It is permissible for the legislative body of the local unit or the board or commission having the authority to approve claims to adopt an ordinance or resolution establishing a reasonable per diem rate intended to cover travel expenses other than hotel and mileage costs and the officer or employee may be reimbursed on the basis of such a per diem rate in lieu of submitting receipts. If a fixed per diem rate is established by policy, the policy should clearly indicate which type of expenses, in addition to meals, are included in the rate and which expenses are to be reimbursed on the basis of actual receipts being submitted by the officer or employee. The policy should also define the local unit's boundaries for purposes of reimbursing travel; i.e., outside a 50-mile radius of the office, outside of the county, etc. The policy should cover a proportionate reduction in the per diem rate when meals are provided by an outside party.

When state statutes govern the amounts of allowable travel reimbursements, those statutes supersede local policy. Also, when determining the reasonableness of a mileage rate or per diem rate, consideration should be given to rates established by the State of Indiana and the Federal government. The local unit should, however, consider the income tax implications of setting its rates higher than the current Federal rates.

In all cases, an officer or employee requesting reimbursement for overnight travel is required to submit a receipt from the hotel or other meeting place where such accommodations were provided. (The School Administrator and Uniform Compliance Guidelines, Volume 167, Page 6)

FRANKTON-LAPEL COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Each governmental unit should adopt a written travel policy in conformity with applicable statutes. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE FRANKTON-LAPEL COMMUNITY SCHOOLS, MADISON COUNTY, INDIANA

Compliance

We have audited the compliance of the Frankton-Lapel Community Schools (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 19, 2007

FRANKTON-LAPEL COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education Child Nutrition Cluster School Breakfast Program	10.553	5245 - 04/05 5245 - 05/06	\$ 18,363 -	\$ - 21,291
National School Lunch Program	10.555	5245 - 04/05 5245 - 05/06	176,162 -	- 231,395
Total for federal grantor agency			<u>194,525</u>	<u>252,686</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education Title I Grants to Local Educational Agencies	84.010	04-5245 05-5245	203,016 -	- 202,881
Total for program			<u>203,016</u>	<u>202,881</u>
Safe and Drug Free Schools and Communities- State Grants	84.186	02-224 03-225 04-189	4,530 6,228 4,173	- 3,749 1,876
Total for program			<u>14,931</u>	<u>5,625</u>
State Grants for Innovative Programs	84.298	02-034 03-073 04-047	5,013 7,704 -	- - 9,438
Total for program			<u>12,717</u>	<u>9,438</u>
Education Technology State Grants	84.318	S318X020014 S318X040014 S318X050014	4,911 757 -	- 4,165 776
Total for program			<u>5,668</u>	<u>4,941</u>
Improving Teacher Quality State Grants	84.367	03-075 04-044 05-018	71,007 71,273 -	- - 55,593
Total for program			<u>142,280</u>	<u>55,593</u>
Total for federal grantor agency			<u>378,612</u>	<u>278,478</u>
Total federal awards expended			<u>\$ 573,137</u>	<u>\$ 531,164</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

FRANKTON-LAPEL COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Frankton-Lapel Community Schools (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005	2006
School Breakfast Program	10.553	\$ 4,783	\$ 3,429
National School Lunch Program	10.555	44,055	36,991

FRANKTON-LAPEL COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Child Nutrition Cluster Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

FRANKTON-LAPEL COMMUNITY SCHOOLS

7916 West 300 North
Anderson, IN 46011-9129
(765) 734-1261 FAX (765) 734-1129

Finding Number	2004-1
Original SBA Audit Report Number	B25027
Fiscal Year	2004
Auditee Contact Person	Ruth Iser
Title of Contact Person	Food Service Director
Phone Number	765-734-1261

Summary Schedule of Prior Audit Findings

Since the Audit until June, 2006, the Food Service Director has implemented her plan to follow appropriate recordkeeping procedures and controls until a new point of sale meal accounting system could be purchased and implemented in August, 2006 for the 2006-07 school year.

The Food Service Director has worked with the Technology Department to have new students imported into the meal accounting system more quickly. After, the new students are entered, the Food Service Director receives meal transaction data from the school managers through e-mail or roster. This written information is kept as documentation. The data is entered in a timely manner and written notes are kept to document the activity. In addition, cashier errors have been corrected at the point of sale computer on the day of the transaction.

Beginning August, 2006, a new point of sale accounting system (LunchBox) was implemented that would be compatible with the new student management system (STI). When looking for a new software program, the Food Service Director and the Technology Director were determined to find a program which would help us be successful in our recordkeeping efforts.

This meal accounting software updates new student information nightly. Therefore, this eliminates the need to enter past meal transactions into the accounting system.

Cashier errors are corrected immediately at the point of sale computer each day.



Food Service Director

2/19/07

Date

FRANKTON-LAPEL COMMUNITY SCHOOLS
EXIT CONFERENCE

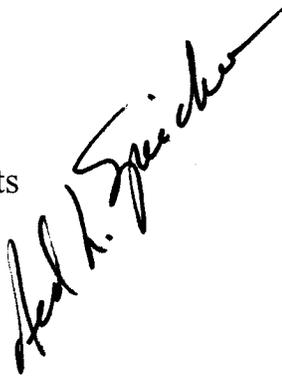
The contents of this report were discussed on February 19, 2007, with Ned L. Speicher, Superintendent of Schools; Nancy Likens, President of the School Board; John A. Mitchell, Vice President of the School Board; Michael C. Lacey, Attorney for School Corporation; and Lynn Hall, Treasurer. The official response has been made a part of this report and may be found on pages 45 through 52.

Frankton-Lapel Community Schools

Ned L. Speicher
Superintendent

Robert A. Fields
Assistant Superintendent

To: State Board of Accounts
From: Ned L. Speicher
Date: February 23, 2007
RE: Official Response to Audit



As Superintendent of Frankton-Lapel Community Schools, I appreciate the assistance provided by the State Board of Accounts in helping us improve our fiscal management of the school district.

With the assistance and cooperation of the School Board, the corrective actions will be implemented to address the findings of our recent audit as follows:

Automobile Mileage Allowances

The automobile mileage allowance of the Superintendent and the FLCS administrators will be removed from the addendums and will become part of the salary of each administrator. The present form of the Superintendent's contract is copied from a draft form provided from a conference hosted by the School Board and Superintendent's Associations. The contract will be redrafted as suggested in the audit.

All mileage traveled by the administrators will be claimed on the prescribed Mileage Claim Form 101.

Travel Policy

A new and revised travel policy will be presented for the School Board for consideration and adoption. The policy will define the parameters of claiming travel status for district employees. The official mileage rate will be set at the federal government approved rate on August 1 of each year for the upcoming school year. General Form 101 will be used to claims mileage. All claims must be accompanied by appropriate receipts for reimbursement to be made. Proposed policy attached.

7916 West 300 North, Anderson, IN 46011-9129 (765) 734-1261 Fax (765) 734-1129

Guaranteed Energy Savings Contract

The school district will see that Siemen's files the energy savings summary reports for the guaranteed energy savings contracts with the State of Indiana Department of Commerce in a timely manner in the future.

Credit Card Policy

A new and revised credit card policy will be presented for the School Board's consideration of approval. The policy will include all school credit cards.

Capitol Asset Records

Frankton-Lapel Community Schools will establish an accounting of fixed assets using the prescribed form. The accounting will designate acquisitions, disposals, and beginning and ending balances. The district will update the assessment management complete inventory every two (2) years and it will align with the audit period of July 1 of every other year.

Appropriations

The Treasurer of Frankton-Lapel Community Schools will not allow expenditures to exceed appropriation levels. Additional appropriations will be requested as needed.

Rainy Day Fund Appropriations

All expenditures from the Rainy Day Fund will follow the appropriation process. The Treasurer will ensure that proper appropriation requests are made and received from the School Board and the State of Indiana.

Compensation and Benefits

All future administrative contracts will have both the contract and the addendum signed by the School Board upon approval of the contracts. All compensation will be moved to the salary part on the contracts.

The School Board will continue to approve all payments to employees as has been done in the past.

Meal Purchases

Meal purchases will be properly coded for payment. The meals will be paid from professional development, community relations, or travel as specified in state and local policies. All claims will have receipts noting the purpose of the meal(s) and be presented to the School Board for approval as has been done in the past.

Disbursement Documentation

Claims in the future not supported by receipts and/or invoices will not be presented to the School Board for approval and payment.

Condition of Records

In the future the Treasurer and central office staff will make every effort to have the Fund Fiscal Reports agree with the beginning balances on subsequent reports.

Officials and employees will use prescribed and approved forms in the proper manner.

TRAVEL EXPENSE

It is the policy of Frankton-Lapel Community Schools to reimburse employees for expenses incurred while on school corporation business if funds are available.

TRAVEL EXPENSE

1. An employee on an approved trip will be reimbursed an amount established by the Board for automobile mileage if funds are available.
2. Mileage claims shall conform to the established forms available in the administration office.
3. Other required expenses such as registration, meals, and lodging may be reimbursed (with proper receipts) when approved prior to the trip.
4. Administrators, teachers, and other employees may be reimbursed for actual miles traveled in their own motor vehicles on official business of the school corporation at a reasonable rate per mile as fixed by a resolution of the school board. Reimbursement mileage shall not include travel to and from the employee's home and place of employment. If two or more persons ride in the same motor vehicle, only one mileage reimbursement is allowable. The odometer reading columns on the form are to be used only when distance between points cannot be determined by fixed mileage or official state highway map.
5. If travel is required of a teacher in order to hold classes in more than one location during the year, the amount of reimbursement for the travel should be stated in the contract and drawn periodically by using the form as outlined above.
6. The following travel expenses are reimbursable:
 - a. Conference registration fees.
 - b. Transportation – plane, train, or automobile including taxis. When the approved automobile mileage rate exceeds the common carrier fare for travel generally beyond 200 miles from Indianapolis, the Superintendent is authorized to allow an amount equivalent to the common carrier fare to staff members who prefer to use their personal car.
 - c. Car rental if specifically approved in advance.
 - d. Toll charges, garage, and parking.
 - e. Automobile mileage at rate approved by Board of School Trustees.
 - f. Lodging – not to exceed single rate.
 - g. Meals – reimbursement will be made for reasonable food expenditures. Receipts must be attached to the expenditure sheet.

MILEAGE CHART

<u>From</u>	<u>To</u>	<u>Miles</u>	<u>Roundtrip</u>
Central Office	FES	8.5	17
Central Office	FJSHS	7.5	15
Central Office	LES	9	18
Central Office	LJHS	9	18
Central Office	LHS	8	16
Central Office	Bank (Frankton)	7.5	15
Central Office	Bank (Lapel)	8.5	17
Central Office	Court House	10.5	21
FES	FJSHS	1	2
FES	LES	15	30
FES	LJHS	15	30
FJSHS	LES	14	28
FJSHS	LJHS	14	28
LES	LHS	2	4
LJHS	LHS	2	4
LHS	FES	14	28
LHS	FJSHS	14	28

Approved 4-17-04
 Revised 11-9-06

7-15A

USE OF CREDIT CARDS

The School Board recognizes the value of an efficient method of payment of recordkeeping for certain expenses. The Board, therefore, authorizes the use of Frankton-Lapel Community Schools' credit cards.

The Superintendent has developed administrative guidelines that specify those authorized to use credit cards, the types of expense which can be paid by credit cards, and their proper supervision and use. The administrative guidelines require that a log be kept which includes the names of the individuals using the cards, their position, estimated amounts to be charged, and the date the card is issued and returned. Credit cards are not to be used to bypass the accounting system of Frankton-Lapel Community Schools. In addition, credit cards are not to be used for personal expenses not related to Frankton-Lapel Community Schools' activities.

Procedures for payment of expenses charged to credit cards must be according to Board policy for the payment of claims.

USE OF CREDIT CARDS

Administrative Guidelines:

The following guidelines are to be implemented when using Frankton-Lapel Community Schools' credit cards.

- A. All credit cards issued to and in the name of Frankton-Lapel Community Schools shall be held and supervised by the Superintendent or his/her designee.
- B. Employees requiring the use of school credit cards shall request (in writing) such cards from the Superintendent or his/her designee.
- C. Each request for use of a school credit card shall contain the following:
 - 1. name and official position of the person requesting to use the card
 - 2. estimated amount to be charged
 - 3. date needed
 - 4. date to be returned
 - 5. purpose
 - 6. authorization
- D. After use, school credit cards are to be returned to the Superintendent or his/her designee along with appropriate receipt copies (not credit card billing statement) of all charges.
- E. Credit cards are not to be used for personal expenses not related to Frankton-Lapel Community Schools' activities.